



CITY OF RYE, NEW YORK  
**FINANCE COMMITTEE MEETING NOTES**

May 3, 2004 – 7:30 p.m. – Employees' Lounge, City Hall

Present: Finance Committee Members Jono Peters (Chair), Michael Caponiti, Fred Dunn, Norm MacMaster, David M. Mullane, George Pratt, and Sal Samperi; City Council liaison Franklin Chu; and City Staff liaisons Michael Genito (Comptroller) and Mary Lou McClure (Deputy Comptroller).

Guests: Mr. George Ilse

Absent: None

Current Budget vs. Actual

Michael Genito referred to the recently released *City of Rye Interim Financial Report - Three Months Ended March 31, 2004*. Michael noted that the interim financial reports are internal reports for management's use and are not audited, nor are they prepared in accordance with generally accepted accounting principles. Michael also noted that due to the nature of our governmental operations, it is difficult to ascertain the direction that many of our major revenues and expenditures will take going forward using only the first three months of the fiscal year for reference.

Highlights of the March 31, 2004 report included the following, with noted increases or decreases being those compared to the same period of 2003:

- Gross utility receipts taxes increased 18.8% due to higher utility rates and colder weather.
- Charges for services decreased 11%.
- License and permit revenues decreased \$158,863 or 24.7%. Of this amount, \$108,885 is related to a decrease in building and alteration permits – our building inspector has advised that activity remains high but that the value of the work has decreased compared to last year. The remaining \$50,000 of the decrease is attributed to a timing difference in the billing and collection of alarm permits. Beginning in 2004, alarm permit fees are billed and collected as they expire, whereas in prior years all alarm permits were billed in one consolidated billing at the beginning of the year.
- All other revenues and expenditures are in line with budget. Major revenues such as sales taxes and mortgage taxes are not received until later in the year.

Status of Capital Projects

Michael Genito distributed a one-page memo dated May 3, 2004 on the status of major capital projects, defined as those projects having a value of over \$500,000. A copy of that memo is attached to these minutes. Sal Samperi asked if there were any major forthcoming projects that the Finance Committee should review. Michael Genito responded that the 2005-2009 Capital Improvement Plan was in the beginning phase, with five-year project requests to be submitted by departments by May 16, 2004, and that this question could better be answered sometime in June.

## Items That Will Impact 2005-2007 Financial Forecast

Michael Genito distributed a copy of the introductory narrative section of the *City of Rye, New York 2004-2006 Financial Forecast* document, which contains the assumptions used in that forecast. A copy of that excerpt is attached to these minutes. Finance Committee members were asked to review those assumptions and make suggestions or recommendations as to what, if any, changes should be made to those assumptions for the 2005-2007 financial forecast document. The Committee agreed to communicate their recommended changes to Michael Genito and other Committee members, and to place discussion of those assumptions as an item on the June 2004 Finance Committee agenda.

## Capital Debt Capacity and Existing Debt Policy

Michael Genito distributed several documents related to the City's debt, including:

- Debt payment schedule as at April 30, 2004;
- Pro Forma Analysis of Charter Bonding Limits at December 31, 2004 (from the 2004 Annual Budget document);
- Pro Forma Computation of Legal Debt Margin at December 31, 2004 (from the 2004 Annual Budget document);
- *City of Rye Debt Limit White Paper*, May 25, 2002;
- Moody's Investors Service City of Rye Aaa Debt Rating, December 11, 2002;
- *City of Rye Debt Management Policy*, 2003;
- GFOA Recommended Practice: *Debt Management Policy*, 2003;
- GFOA Recommended Practice: *Maintaining an Investor Relations Program*, 2003;
- *Moody's Approach to Analyzing Municipal Long-Term Debt – A Focus on Local Government Analysis*, February 2004
- *Hidden Risks of Variable Rate Debt*, Moody's Investors Service, March 2004;
- GFOA Recommended Practice: *Using Variable Rate Debt Instruments*, 1997
- GFOA Recommended Practice: *Use of Debt-Related Derivatives Products and the Development of a Derivatives Policy*, 2003

Michael Genito reported that the total 2004 debt service (principal and interest) payments equal approximately 5% of the total budgeted expenditures (excluding interfund activity) for 2004; that the City's New York State Constitutional Debt Limit in 2004 is less than 8%, and that the City Council's maximum bonding authority under Council vote and Council vote subject to permissive referendum is approximately \$900,000. Sal Samperi noted that a sub-committee of the Finance Committee would be reviewing and making recommendations on the City's financial policies, including this debt policy. Fred Dunn noted that given the current interest rate environment and anticipated upward trends, and considering that the industry considers a 3% rate to be neutral, the City should consider bonding for the full amount of the Locust Firehouse and any other major items as soon as possible. Michael Genito responded that the City will most likely bond for the full amount and any other items in the last quarter of 2004, when rates might be slightly higher but still relatively low. Issuing the bonds in the last quarter generally obtains lower rates, and by putting our debt service requirements later in the year allows us to maximize interest earnings on our cash balances. Michael Genito noted that there was criticism over the full bonding of the Damiano Center project, which was subsequently reduced in scope from \$2.9 million to \$1 million or less. However, given that construction was anticipated in the spring/early summer of 2003; that the City Council and the public had supported the project through a public bond referendum, combined with the historically low interest rates of 2002, it was, and still is, the opinion of the City Comptroller that the decision to bond for the Damiano

Center was appropriate at the time that decision was made. Jono Peters asked about the defeasance of the Damiano Center bonds, and Michael Genito responded that it is too early to determine the best course of action, as the revised project and its estimated costs have not yet been developed. Considering the interest rate forecasts promoted by most industry experts and the bonds having a coupon rate of 3.25%, the City might soon be effectively defeasing the bonds with basic savings and overnight deposits. Fred Dunn offered to forward copies of recent municipal bond sales from across the country to Michael Genito for a general sense of where the municipal rates are heading.

#### Revenues and Fees Other Than Property Taxes

Sal Samperi noted that the Finance Committee had recommended to the City Council that it remain in the Countywide sales tax sharing arrangement and forego implementing a City of Rye sales tax; that the Committee had recommended to the City Council that it implement an occupancy tax, and that there was discussion at the City Council level to install metered parking in all City lots.

Michael Genito reported that the City Council is awaiting a resolution from the Corporation Counsel and instructions on how to proceed to adopt the necessary local law that would allow for an occupancy tax. Once all the necessary steps have been completed at the local level the proposed legislation requires the adoption of special legislation by the State Legislature. The proposed legislation must be presented to the State Legislature no later than June to be acted on before the end of the fiscal year. In short, it is uncertain at this time whether or not an occupancy tax will be in place for fiscal 2005.

Michael Genito reported that the issue of metered parking is currently being reviewed by City staff. To date the recommendation is to forego individual parking meters due to maintenance issues, both of the meters and the lots they would be in, and install multi-space single point metering boxes.

#### GASB Proposed Statement on Other Post Employment Benefits

Michael Genito reported that the Governmental Accounting Standards Board (GASB) has published an exposure document on a new standard to require the accrual of post-employment benefits, such as retiree health benefits. This may have a significant financial impact on local governments. While funding is not required, it may become effectively required if debt rating agencies determine that lack of funding of the accrual is a negative factor in credit strength.

In 1993 the General Accounting Office (GAO) published a report on FAS 106, the equivalent Financial Accounting Standards Board (FASB) standard on post-employment benefits that went into effect that year. The report was entitled *Health Benefits Not Secure Under Employer-Based System* and included the following statement: "Whether FAS 106 will have an impact on corporate credit ratings and borrowing capacity is unclear...the rating agencies are generally inclined to view the new accounting standard as a 'nonevent'. Standard & Poor's said it is not expected to have any widespread impact...Moody's state that rating changes were not anticipated."

In 1997 the GAO published *Retiree Health Insurance – Erosion in Employer-Based Health Benefits for Early Retirees*, which stated: "A sharp drop in employer-based retiree coverage occurred between 1992 and 1993...many companies cited the fact that FAS 106 results in reductions in reported income and shareholder equity as a reason for modifying retiree health benefits, including the phasing out of such coverage."

Michael Genito noted that the proposed implementation date for the GASB OPEB standard for the City of Rye would be fiscal 2008, and the City may implement the standard earlier than required, as it did with GASB Statement No. 34. The City is currently working with its health insurance provider and an actuary experienced in estimating the expense and liability of post-employment benefits in preparation of implementing the proposed standard.

Those interested in learning more about the proposed OPEB standard should visit the GASB's web site at <http://www.gasb.org>.

Adjournment

Having no further business, the meeting adjourned at 9:00 p.m.

Respectfully submitted,

Michael A. Genito



Michael Caponiti  
Frederic Dunn  
Norman MacMaster

Jonathan W. Peters  
*Finance Committee Chair*

Franklin Chu  
*City Council Liaison*

Michael A. Genito  
*City Staff Liaison*

David M. Mullane  
George Pratt  
Sal Samperi

## **CITY OF RYE FINANCE COMMITTEE MEMORANDUM**

Date: May 3, 2004  
To: City of Rye Finance Committee  
From: Michael A. Genito, City Comptroller  
Re: Update on Major Capital Projects

### Project 505201 Kirby Lane Sewer

The City Council will not pursue a policy that would mandate sewers in the Kirby Lane area unless there is a significant voluntary participation by at least 75% of the impacted residents. Corporation Counsel is drafting legislation to that effect, and Charles Sells Engineers will assist in defining the special assessment district. The estimated cost of this project is \$1.5 million, to be funded by debt issued through the New York State Environmental Facilities Corporation and repaid by the benefited properties through special assessment charges. The estimated project cost may increase or decrease materially based upon the willingness of the area residents to participate in the special assessment district. No construction work has begun on this project.

### Project 505262 Sewer Rehabilitation Project

The 2004 Sewer Rehabilitation project will provide \$580,000 of mandated sewer line improvements in compliance with infiltration and inflow requirements established by Westchester County. Approximately \$430,000 of project funding will come from an Environmental Protection Agency grant, with the remaining \$150,000 being drawn out of available balances in the General Fund. Project engineering plans and design work is underway.

### Project 6633416 Locust Firehouse Improvements

On April 27, 2004 a public referendum was successful in authorizing the City to issue an additional \$2.24 million of debt to fund the Locust Firehouse improvements. Added to the previously authorized but unissued debt of \$2 million for this purpose, there will be sufficient funding of \$4.24 million to repair the Locust Avenue Firehouse to meet current building and safety codes. The Firehouse Building Committee will be reconstituted to assist in the development of reconstruction plans. Actual construction will begin in 2005.

### Project 6637118 Damiano Center Improvements

The original \$2.9 million Damiano Center Improvements project was discontinued when one of the vendors could not meet bid bonding requirements and the next lowest bidder would have exceeded the project budget for that portion of the project work. The City Council has asked the Recreation Commission to redevelop a less expensive alternative to the original project, focusing on sufficient space for senior activities. An update report from the Recreation Commission's Building Committee is listed on the agenda for the City Council meeting of May 5<sup>th</sup>, 2004.

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CITY OF RYE, NEW YORK

# Financial Forecast 2004 - 2006

*Published By:*  
The Department of Finance  
Michael A. Genito, City Comptroller  
July 14, 2003

## Introduction

The *2004 – 2006 Financial Forecast* attempts to peek into the future and determine what effects various factors may have on the cost of delivering quality services. The information provided in this document will help in decision-making and planning, and allow us to consider how actions taken today might affect our future.

It is important to note that the information contained in this document cannot be relied upon for accuracy or timeliness, and in no event should it be used in making investment decisions. It is also important to note that the City Comptroller, using his professional judgment and skills, developed the analyses and supporting criteria. Others may have selected different criteria, and may have developed different analyses even if the criteria were the same.

Perhaps most important is to understand the following limitations of forecasting:

- There will always be uncertainty about the future.
- There will always be factors unknown at the time the forecast is developed.
- Formulating policy in response to a forecast will change the accuracy of the forecast.
- Forecasts are based on current knowledge, trends, expectations, and policies, any and all of which may change, affecting the accuracy of the forecast.
- Any reasonable assumption is as good as any other reasonable assumption.

We welcome your comments and suggestions, and hope you enjoy our *Financial Forecast*.

## Forecast Development – Funds Used

The *2004-2006 Financial Forecast* was developed using the following funds: General, Cable TV, Nature Center, Debt Service, Risk Retention, and Building and Vehicle Maintenance. Also contributing to the information on funds and funding was the draft *2004-2008 Capital Improvement Plan* as of June 30, 2003, which provided information on proposed capital projects. The enterprise funds (Boat Basin and Golf Club) were not considered, as they are self-supporting and requiring no subsidy from the General Fund.

While all of the above were used in developing our forecasts, the information presented in this report covers only the General Fund, as the focus of this report is designed to see the net effect on operations, fund balance, and property taxes over the period covered.

## Assumptions

Assumptions considered in developing these forecasts include:

### **Cost of Living Increase**

Where a cost of living increase was calculated into an estimate, we used the change (2.55%) in the consumer price index (CPI), not seasonally adjusted, for New York-Northern New Jersey-Long Island, NY-NJ-CT-PA, all items, 1982-84=100, from April 2002 (191.8) to April 2003 (196.7). The same factor (2.55%) was used for all three forecast years. The CPI information was obtained from the U.S. Department of Labor web site <http://www.bls.gov> on June 9, 2003.

## **2003 Forecast**

The figures included as a 2003 forecast represent the adopted budget amounts increased or decreased by material changes since the adoption of the budget. While every attempt has been made to capture the changes that would have a dramatic effect on the original budget estimates, developing a more thorough year-end forecast would have required significant resources in time and personnel from every department.

## ***The Capital Improvement Plan***

The City annually publishes in August a multi-year capital improvement plan covering the forthcoming five or six-year period, listing all major infrastructure (streets, sidewalks, drains, sewers, etc.) and building projects.

At the time of this document's publication, the *2004-2008 Capital Improvement Plan* was in its formative stage and not ready for distribution. As such, we used the draft version of that plan as of June 30, 2003, making certain assumptions as to what projects might be supported and the funding (General Fund, fund balance/retained earnings, debt, grants/aid, etc.) that might be provided to support those projects. The projects and the information concerning them, including funding, may differ materially from the final version of the plan, the projects approved by the City Council, and the assumptions we have made in developing our forecasts.

## ***Vehicle Acquisitions***

The City regularly replaces vehicles that have met the criteria for replacement based on years of service, mileage, and/or hours of operation. This list of replacement vehicles, and any new vehicle requests, is submitted to the City Manager in June.

At the time of this document's publication, the list of new and replacement vehicles for 2004 was under review by the City Manager. Accordingly, we have made certain assumptions as to what funding might be provided for vehicle acquisitions. These assumptions may differ materially with the final determinations made by the City Manager and/or acquisitions approved by the City Council for 2004, and the decisions concerning new and replacement vehicles in 2005 and 2006.

## ***Taxable Assessed Valuation***

Per the City Assessor, we anticipate a small reduction (0.11%) in our taxable roll for fiscal 2004 due to successful certiorari challenges and state-mandated reductions. The City Assessor has also advised that the roll will probably remain unchanged in 2005 and 2006, as any increases related to new construction will be offset by successful certiorari challenges and state-mandated reductions.

## ***Specific Major Revenues***

Mortgage taxes have risen dramatically over the past two years, most likely due to the historically low financing and refinancing rates. The Mortgage Bankers Association of America's *Monthly Finance Forecast* for June 13, 2003 (<http://www.mbaa.org/marketdata/forecasts/index.html>) forecasts a dramatic drop in home financing in 2004. Based on this information we are assuming for 2004 the average of 2001 actual, 2002 actual, and \$1 million (an average of mortgage tax receipts prior to the low interest environment), increased by the CPI for the following two years.



State aid revenue sharing has remained unchanged for the past three years and there is no indication that this will be increased during the forecast period. We therefore assume that this amount will remain fixed at \$842,606 per year.

### **All Other Revenues**

We anticipate all other revenues, major and non-major, to increase with the CPI (2.5%) each year during the forecast period.

### **Salaries and Wages**

We assume that staffing would remain the same, with average increases as follows:

- Administrative Pay Group – Includes all full-time management personnel. This group of employees does not belong to a bargaining unit, and increases are per policy of the City Council as implemented by the City Manager. We have assumed that all administrative pay group members will receive a 4% percent increase per year.
- CSEA Clerical Unit – Includes all full-time clerical personnel. This group has a bargaining unit formed under the Civil Service Employees Association (CSEA), with a recently renewed three-year contract expiring December 31, 2006. While the individual increases for employees would be determined by their salary grade and the number of years they have been employed, the average annual increases for this unit is 6.34% in 2004; 6.09% in 2005; and 8.67% in 2006.
- CSEA DPW Unit - Includes all full-time public works and recreation other than administrative and clerical personnel. This group has a bargaining unit formed under the Civil Service Employees Association (CSEA), with a recently renewed three-year contract expiring December 31, 2006. While the individual increases for employees would be determined by their salary grade and the number of years they have been employed, the average annual increases for this unit are 5.20% in 2004; 4.24% in 2005; and 4.03% in 2006.
- Police Officers - Includes all full-time sworn police officers. This group has a bargaining unit formed under the Rye Police Association (RPA), with a contract that expires December 31, 2003. Assuming that a three-year contract under the same terms and conditions were renewed with a 3.5% increase on base salary, the average annual increases (including step and longevity increases) for this unit would be 4.47% in 2004; 4.21% in 2005; and 3.72% in 2006.
- Firefighters - Includes all full-time sworn firefighters. This group has a bargaining unit formed under the International Association of Firefighters (IAFF), with a contract that expires December 31, 2004. While the individual increases for firefighters would be determined by their salary grade and number of years they have been employed, the average annual increase for this unit in 2004 is 5.06%. Assuming that a two-year contract under the same terms and conditions were renewed with a 3.5% increase on base salary, the average annual increases (including step and longevity increases) for this unit would be 7.02% in 2005 and 4.33% in 2006.
- Part-time, seasonal, and overtime wages – Includes all part-time and seasonal employees, and amounts provided for overtime. Part-time and seasonal increases are determined by policy of the City Council and implemented by the City Manager. Overtime is paid in accordance with labor law and labor contracts. Since these wages may fluctuate with any given year, we assumed for each year a CPI increase over the prior year (2004=2003+CPI; 2005=2004+CPI; 2006=2005+CPI).

### **Equipment**

Since the total amount expended for equipment purchases can vary from year to year, we assumed for 2004, an average of 2001 actual, 2002 actual, and 2003 forecast, increased by the CPI. We then calculated a CPI increase over 2004 for 2005, and a CPI increase over 2005 for 2006.

## ***Materials and Supplies***

Like equipment, the total amount expended for purchases of materials and supplies can vary from year to year, so we assumed for 2004 an average of 2001 actual, 2002 actual, and 2003 forecast, increased by the CPI. We then calculated a CPI increase over 2004 for 2005, and a CPI increase over 2005 for 2006.

## ***Contractual Costs***

Contractual costs differ widely in how they are calculated, so the assumptions we used were very specific to each cost. For many lines we assumed for 2004 an average of 2001 actual, 2002 actual, and 2003 forecast, increased by the CPI. We then calculated a CPI increase over 2004 for 2005, and a CPI increase over 2005 for 2006.

Risk Retention Fund (liability insurance) service charges were based on an assumed 15% per year increase in risk-related costs (insurance, claims administration, judgments and claims). Information obtained from insurance administrators, consultants and articles appearing in the media concerning municipal liability insurance forecast increases from 12% to as high as 40%. A separate forecast worksheet for the Building and Vehicle Maintenance Fund was developed using the same assumptions as those for the General Fund to determine the forecast of service charges for that fund. Contract agencies (Rye Youth Council, Rye Town Park, Southeast Consortium, and Rye Free Reading Room) are assumed a 2.5% CPI increase each year, starting with the 2003 forecast as a base year. Audit fees assume the increases per the 2002-2006 audit services contract: 5%, 3%, and 3% respectively. Ambulance services are assumed to increase by 11.5% each year, and transportation services by 12% each year, both based on recent historical experience. Contingency was forecast as per the City Charter requirement that contingency must equal 1% of appropriations.

## ***Employee Benefits***

All full-time employees are required to be members of the New York State Retirement Systems (NYSRS). While the NYSRS does not publish rate forecasts, we were able to obtain verbally the estimated 2004, 2005, and 2006 rates. While the actual rate used is dependent upon the position the employee holds and the date they joined the retirement system, on an average basis the rates for 2004 through 2006 are estimated to be 14.9%, 14.9%, and 16.3% for public safety (police and firefighters), and 10.7%, 10.7%, and 11.7% for all other employees.

In calculating estimated employer FICA contributions we used the rates published by the Social Security Administration (<http://www.ssa.gov>). When adjusted for the earnings in excess of the maximum taxable amount for social security, the effective rate is 7.34%. We applied this rate to the total of salaries and wages to arrive at the FICA employer contribution in each forecast year.

For workers compensation, life insurance, unemployment insurance, disability insurance, hospitalization and medical insurance, dental insurance, and vision insurance, we assumed a 15% increase for each year. This is based on discussions with insurance administrators and consultants, and a variety of articles appearing in the media.

## ***Transfers Out to Other Funds***

The following assumptions were made concerning transfers out to other funds:

- The Cable TV Fund will not require operating subsidies from the General Fund, and will draw down from its fund balance if necessary to balance operating expenditures that exceed revenues. A forecast worksheet was developed for the Cable TV Fund using the same assumptions as those

for the General Fund, and indications are that there will be operating deficits of \$2,802, \$7,108, and \$12,856 in 2004, 2005, and 2006 respectively. The fiscal 2003 budget forecast a fund balance of \$27,260 at December 31, 2003.

- The Nature Center Fund will continue to require operating subsidies from the General Fund, and based on a forecast worksheet developed for the Nature Center Fund using the same assumptions as those for the General Fund, we forecast that subsidy to be \$118,462, \$130,190, and \$139,308 in 2004, 2005, and 2006 respectively.
- The Debt Service Fund will continue to require transfers from the General Fund to cover the payment of principal and interest on general long-term debt (debt not otherwise covered by the Golf Club Fund or Building and Vehicle Maintenance Fund). In addition to debt already issued, we assume that the draft (as of June 30, 2003) *2004-2008 Capital Improvement Plan* will be implemented, requiring new debt to be issued of \$1,545,000 in 2004 and \$1,448,717 in 2005. We assumed a 4% interest rate on 15 and 20-year maturities (dependent on the purpose of the proposed issue), using level debt service (where the total debt payment remains relatively the same each year for the life of the issue, similar to a traditional mortgage). We also assumed that no use of Debt Service Fund fund balance would be used to offset debt service requirements. Based on these assumptions, debt service requirements for existing and new general long-term debt are estimated to be \$130,646, \$244,530, and \$351,221 in 2004, 2005, and 2006 respectively.
- The Capital Project Fund will continue to receive funding from the General Fund for at least the recurring annual infrastructure projects (street resurfacing, sidewalks, drainage, and sewers). Assuming the draft (as of June 30, 2003) *2004-2008 Capital Improvement Plan* will be implemented, the Capital Projects Fund will require the General Fund to provide \$540,000, \$425,000, and \$350,000 in 2004, 2005, and 2006 respectively.
- The Building and Vehicle Maintenance Fund will receive \$300,000 in 2004, and \$500,000 each year in 2005 and 2006 from the General Fund, for those building projects and vehicle purchases not otherwise funded by debt or aid. In 2004 there will be sufficient retained earnings to provide \$200,000 from the Building and Vehicle Maintenance Fund, but our forecast indicates that beyond 2003 there will be no substantial excess of revenues over expenses to add significantly to retained earnings. This assumes that the draft (as of June 30, 2003) *2004-2008 Capital Improvement Plan* will be implemented and that the City will continue funding annually on average \$500,000 of building projects and/or vehicle purchases.

## Conclusion

This *Financial Forecast* is meant to provide some data and analysis of that data based on a set of assumptions. It is meant to provide the reader with some thought on how current policy decisions may affect future operations, and to provide those managing the City with a tool to assist them in crafting policies for the future. This document draws no conclusion as to the appropriateness or inappropriateness of any given policy, and makes no claim as to the validity or applicability of assumptions used in developing the forecasts presented.

As with all documents produced by the Finance Department, we look forward to your comments, questions, and suggestions that will help us improve future editions of this document. We thank you for taking an interest in this *Financial Forecast*, and hope that it stimulates your thoughts concerning our journey into the future.

As H.P. Liddon once said, “*What we do on some great future occasion will probably depend on what we already are, and what we are will be the result of previous years of self-discipline*”.

~ Michael A. Genito, City Comptroller